RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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THE MARKET: This market may appear tired, it may be frustrating to the average person (see clip), it may look (to the bears) as if it's pushing to the edge of a cliff. But the fact is that we keep getting upside confirmations and re-confirmations.

Associated Press

NEW YORK — What good is a bull market if hardly anybody seems to be having a good time?

Yet rather than holding celebrations and proclaiming the good fortune enjoyed by themselves and their customers, many people in the financial world were busy fretting about persistent budget and trade deficits, the possibility of a recession or revived inflation and lagging corporate profits.

The week ending July 12 was an extremely rare one in that ALL the D-J Averages (Industrials, Transports, Utilities and the D-J 65 Stock Average) hit record highs simultaneously. I can't remember the last time that happened. Confirming with a string of record highs were the S&P 500 and the NYSE Composite. My Primary Trend Index recorded an all-time high of 1986, and the A-D Ratio, a proxy for all NYSE issues, advanced to a new 1985 high.

On July 16 we had another extraordinary day as all five NYSE indices (Industrials, Transports, Utilities, Finance and Composite) as well as all six S&P indices (Industrials, Transports, Utilities, Financials, 500 Index and 100 Index) rose to record highs. On top of that the Wilshire 5000 Index (the broadest of all indices) pushed over $2 trillion for the first time in history.

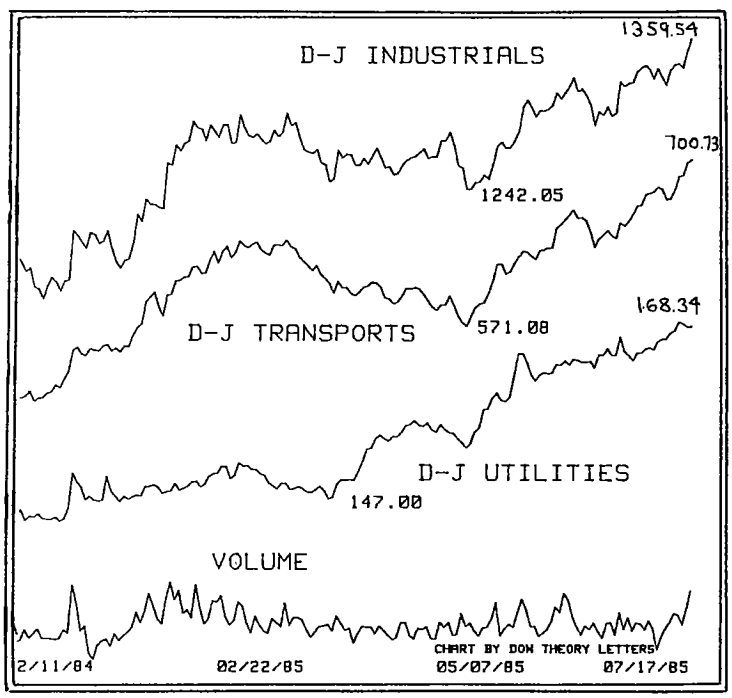
So any way you look at it, this is a bull market. And despite what you may hear, despite budget deficits and gosh-awful trade balances and sliding corporate earnings, the bull market remains intact. In my opinion, this bull market has a ways to go.

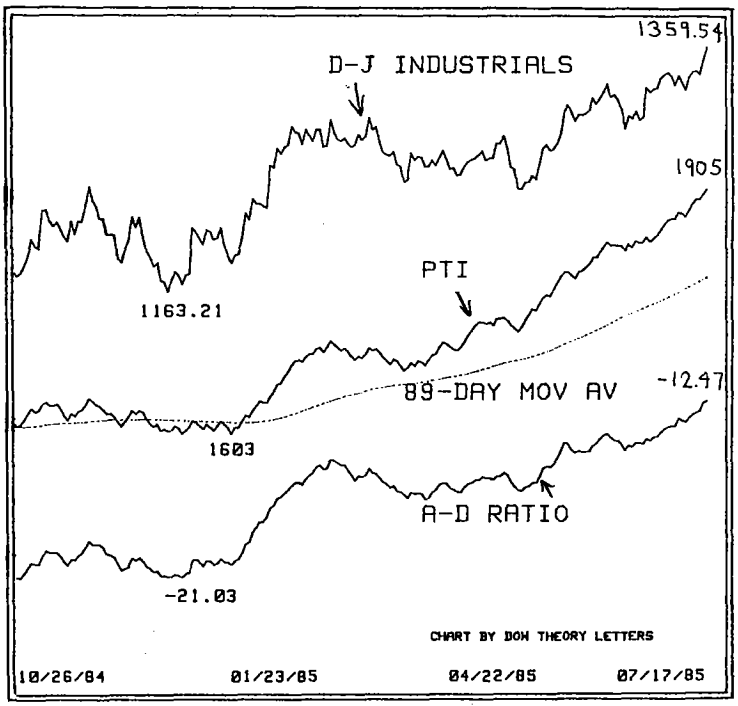
I have a few observations to offer at this point, and here they are: (1) I've never seen pessimistic and worrisome sentiment (of the kind we're seeing today) associated with a major bull-market top. (2) The LONGER the bad news lasts (and today it seems to be never-ending), the greater the bull market potential. (3) Bull markets don't end with bad news, they end in EXHAUSTION. What causes exhaustion? The public coming in, excitement, froth, final over-valuation. (4) The only games left in town (and I write off real estate, commodities, precious metals, etc.) are stocks and bonds. Bonds because they still provide good income, stocks because they still have bull market potential.

(5) The American standard of living is now on the decline. It will head even lower in the future as taxes are raised (and they will be!). This declining standard-of-living phenomenon will ultimately give way to gambling and speculation as Americans attempt to compensate for their lowered standard of living. For instance, watch the fireworks when the new California lottery arrives this fall. Watch the options markets. In the end, the gambling and speculation will hit the NYSE and AMEX and NASDAQ with a vengeance. This bull market will ultimately die amid an orgy of froth and high prices. But that could easily be a year to a few years away.

(6) Everyone (and I mean everyone) now knows about the four-year market cycle. The low for the next four-year cycle is due to hit in 1986, meaning that we could get a market top here in 1985. If we do, I believe such a "top" will be a secondary top, leading to a correction rather than a true bear market. As I said in the last Letter, a correction here would be healthful, not fatal. A correction in 1985 or even '86 would scare the devil out of the already skeptical public and render the technical situation even stronger. But I'm not counting on the four-year cycle at all. It's just too well-known and too well-accepted.

(7) Because of the explosion in the stock market advisories and newspaper "experts", much is now being written about cycles, waves, periodicity and "events which are destined to occur". Frankly, I've never paid LESS attention to such studies than I do now. What I do pay attention to is the technical condition of the market: public sentiment, values and the market's REACTION to news. In other words, if it's not directly market-related, I write it off. So far, that policy has stood me in good stead.





I want to give my readers an interesting current example of just what I am talking about. I attempt to stay informed. One way to do that is to read a lot. And I mean I read eight newspapers a day plus about four to eight magazines a day. Every evening there's a pile of paper outside my home at least a foot high (which the local paper collectors love). I like reading; I like staying informed. I find the whole process both fascinating and helpful.

What does all this really have to do with the markets? Sometimes it has very little to do with market analysis, sometimes a lot. Right now I feel that the whole news/market syndrome is particularly important. It's important because the market is at a record high and the economic and business news is hardly bright.

The great majority of economists are now looking for holding action in business with perhaps a GNP of 2 to 3% for the remainder of 1985. Few economists are now predicting a recession, much less a nasty recession. No one except for the Levys of Chappaqua, NY ("Industry Forecasts"). Why have I mentioned the Levys so often in recent Letters? Simple, because: (1) They have a long record of excellent business forecasting; (2) they are predicting a severe recession to begin in the months ahead, and (3) they are now receiving an extraordinary amount of publicity based on their ominous predictions (in the last few weeks they have been features in the Wall Street Journal, the New York Times and New York Business Magazine).

"So what, Russell," you retort, "what's the big deal?" And my answer is that the market by now is FULLY AWARE of the Levys' contrary and scary view. The market and all its practitioners now know that the Levys expect the roughest recession since the 1930s. The market knows that the Levys are forecasting a drop of up to 40% in corporate profits and a severe business recession.

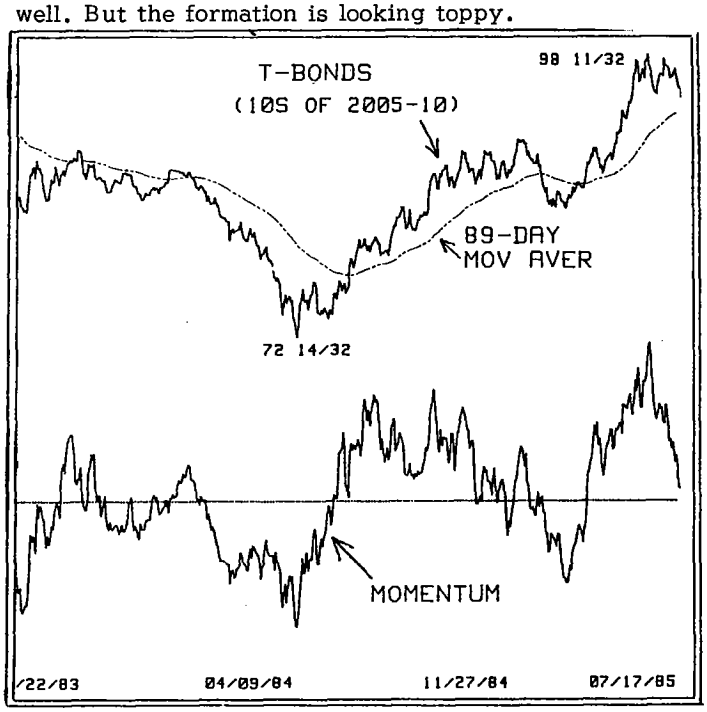
Now I'm interested in the Levys' economic views, I've followed those views for many years. But I'm MUCH MORE INTERESTED in the market's reaction to the Levys' warning forecasts. In other words, it's not the news that I'm interested in, it's the market's REACTION to that news that I find most important.

So let's face it. Even if you're the biggest bear on the face of the earth, you've got to admit that this market has been ignoring what the Levys have been saying. The market, to repeat a phrase, has been "marching to the beat of another drum". And that drum has been a bullish one. Maybe Wall Street likes the declining dollar, maybe the Street likes the flooding money supply, maybe the Street simply believes that we've seen the worst. I don't know, and I'm not sure anyone else does. But the kind of technical action we've seen in July spells "upside power". This is a bull market that likes something that it sees ahead.

BONDS, RATES: The plus in the bond picture is the good price action. The minus in the bond picture is the top-out of the dollar and the fact that a sliding dollar offers little incentive for foreigners to buy dollar-denominated bonds. If foreigners (for instance, the Japanese who have been huge dollar-bond buyers) stop buying or start actually selling dollar-bonds, there is going to be a lot of pressure on US bonds and US interest rates. That's the minus. Another obvious minus is the flood of M-1 created by the Fed. Exploding M-1 in the past has been a harbinger of inflation. And inflation is the nemesis of the bond market.

But as I said, price action supersedes all other considerations. This chart traces the T-bonds from January 1983 to the present. Except for a brief five-point correction in early 1985, the bonds have held well above their 89-day moving average.

The 34-day rate-of-change (momentum) serves to portray strength or weakness and it also pinpoints over-sold and over-bought areas. We reached an extreme over-bought in early June as seen on the momentum index, and since then momentum has been correcting back towards 1.0. But it is how the bonds ACT during this corrective period that is important. So far, the momentum has dropped within striking distance of the 1.0 line and the PRICE has held fairly well. But the formation is looking toppy.



For a first danger signal, I would want to see the September T-bond contract break decisively below 75. If that happens, I would say that we were seeing indications of a real top in bonds. (I use the T-bond contract because it is convenient, the contract price is available at any hour of the trading day, and because the contract price is carried in almost all newspapers). Note: The chart shows an actual T-bond, not the futures.

INVESTMENT POSITION: Say "hello" to the bull again, he's still king of this box. It's getting progressively more difficult to find real values in this stock market, but the technical condition of the market is still impressive. Again and again the market attempts to correct, but each time buyers come in and turn the Averages to the plus side. As they say on Wall Street, "The trend is your friend." The catch is that you darn well better know which way the trend is going. My PTI is still bullish, although it's now an incredible 100 points above its 89-day (exponential) moving average. So a stall for a while or even a correction should not be unexpected.

Strongest Dow stocks are Allied Corp., Amer. Can, Amer. Express, Am. Tel., Gen. Foods, Merck, Owens-Illinois, Westinghouse, Woolworth.

Bonds appear a bit tired of going up, gold appears a bit tired of going down (see other sections). Conclusion: Sit tight, it's still a bull market on Wall Street despite Congressional stupidity, Presidential pussyfooting, erratic corporate profits and space-bound deficits.

MUNI FUTURES: I follow a lot of futures contracts. Not because I trade them, but because they are a big help in following markets. It seems as if the various exchanges bring out a new contract every week or so. In so doing, I am afraid they are steering the public toward speculation and gambling, rather than investing. As veteran readers know, I am a great proponent of compounding one's way to wealth. Trading futures is about as far away from safely compounding your money as you can get. But, as they say, it's exciting.

One new contract that I like is the Chicago Board of Trade's muni bond futures contract. This contract is based on the Bond Buyer Municipal Bond Index (the contract is $1,000 times the Bond Buyers Index). The Bond Buyers Index in turn is based on 40 longterm tax-exempt bonds.

The Treasury bond market has only one supplier and that supplier is the federal government. In contrast, the muni bond market has roughly 50,000 local and agency suppliers who issue anywhere from 6,000 to 8,000 new bonds each year. To give you an idea of size, in 1980 $80 billion of munis were issued. The total size of the muni market is currently half a trillion dollars.

Many of these muni issues have very thin markets, particularly the lower rated issues. On the other hand, the muni bonds I have been recommending are the state general obligation bonds, bonds that carry the full faith and credit of the issuing state. Most of these bonds are rated AA or AAA by S&P. Currently, yields on the longterm GO bonds of the states are around 8.4%, tax-free both state and federal if you buy the bonds from your own state. Unlike the federal government, many of the states (check your own state) have mandated that their budgets be balanced (for instance, California has such a law).

How do you follow muni bonds? The easiest way is to check the Bond Buyers Muni Index under the Weekly Market Statistics column in Barron's. Another way is simply to chart the CBOT muni futures contract each day (this contract moves up and down with muni bond prices -- not yields).

Some pressure has been seen in muni bonds recently (vs. Treasury bonds) because of the fear that the new Reagan tax bill would make tax-free muni income less attractive (since the top level of personal tax bracket would be 35% rather than the current 50%). Based on this fear, one trading spread that has been very popular (and profitable) has been to buy the Treasury futures and sell the muni bond futures. But this spread is now well-known, the tax bill is near-dead and I most definitely do not recommend this trade for subscribers.

CONFESSIONS, THOUGHTS, OPINIONS: About six months ago I sent out a long questionnaire to about 75 people in the investment advisory business (being in this business almost 30 years, I personally know most of the advisors that I sent the letter to). I asked them all kinds of questions (the answers are strictly confidential). When the returns came in I collated the answers and wrote a report on the whole venture. In the return-report I talked a bit about myself and how I got started in this business. Since you (my subscribers) read my stuff 26 times a year, I thought you might want to know a little more about the guy who writes it. The following is from the return that I sent to the 75 other advisors.

I started Dow Theory Letters in early 1956. I started it as a hobby, mimeographing the letter to friends at a cost of $15 per year. Towards the middle of 1958 I was mailing out 50 Letters, many to people I didn't even know -- people who were friends of friends. Towards the end of 1958 I became certain that the market was in for a tremendous bull movement. The more I studied the situation (and the black prevailing sentiment) the more convinced I was that the market was going to explode on the upside. In fact, I was so convinced that I showed Bob Bleiberg (then editor of Barron's) a few of my Letters, and I told him that I wanted to write an article for Barron's. At that time Barron's had dropped everything to do with the technical approach. Dow Jones had never gotten over the 1929-32 fiasco, and the fact that almost all the advisories had been wrong (to this day the WSJ refuses advisory advertising). But Bob liked the idea, and he told me he would have to talk to the higher ups at Dow Jones. About a month later he told me that he got the OK, and I wrote an article (highly bullish) entitled "Dow Theory Revisited". The result was sensational. In about a month a little ad I placed in Barron's pulled in about $30,000 in subscriptions (which was BIG money in those days).

People wrote me that they were so happy that someone was finally writing classical Dow Theory again (I received subscriptions from many of Robert Rhea's subscribers -- he had died in 1939). To put it briefly, I was in business.

And it went on from there. At that time there were very few of us in the business. Garfield Drew (odd

lots) was the biggest name in the advisory publishing business, and a few years later he asked me if I wanted to work for him. I politely said "No," and he replied, "I thought so. In this business, if you've got anything on the ball, you do it yourself."

I won't go into every facet of my personal life except to say that I have been married and divorced twice and that I am happy now. I think I started out very unhappy and grew progressively happier as the years went by (which is a pretty good way to go). I have five kids, four girls and a boy, ages 4 to 30 (beat that spread if you can!). One of my girls is autistic, and that's been a heart-break and a huge expense. But I've learned a lot from that kid and I guess I'm a better person for it.

As for my business, I run a small ad in Barron's every other week (I've been doing that since 1958) and I also do a small amount of direct mail. Many other advisory publishers tell me that they don't know how I stay in business with so little promotion and advertising. But I've stayed. I have a high renewal rate and a very high quality list of subscribers including a large number of institutions.

I guess for some reason people like to read my stuff. I've been told that it's "half literature, half market material". Whatever it is, I like writing it, and I guess I'm really a frustrated screenwriter or novelist. In fact, I started out (after college) wanting to be a great novelist. It never happened.

People ask me where I get my philosophy from, and why I write so much about living and morality, etc. The answer is that I came by it the hard way. I came out of WW II (Air Force bombardier) a bit crazy, and I spent the next 20 years in psychoanalysis, various therapies, you name it and I tried it. And I never regretted the time and money I spent in therapy. It made me face myself, my life and my shortcomings. So I'm pretty much at peace with myself now, and that's (to my mind) the biggest thing in life. If you're not at peace with yourself, if you can't stand your life, then all the bread in the world isn't worth a damn.

Many of my readers wonder why I am so obsessed with markets and news events. I guess I have a real desire to know how the world works and why. It's as simple as that. We only have one world. Why not learn as much as we can about it? As far as the markets themselves are concerned, I consider the markets our crystal balls, our barometers for looking into the future. Of course, there's one catch -- you have to be able to interpret the markets correctly. But that's the fun and the challenge of the game. The markets, for me, offer a never-ending story. Hopefully, I will get more skilled in interpreting the puzzle -- as time goes by.

Friends make fun of me for my reading habits. But that's OK. I like my life and I live it my way. Every morning I get up at 3:30 am. I read the Wall Street Journal and the New York Times until 5 am. Then I walk the bull terrier about a mile to the newsstand and get the San Diego Union. I return, pick up the LA Times (which is delivered). I read and have my breakfast. At the office I read Investor's Daily and the Christian Science Monitor. All that reading gives me a pretty good idea of what's going on (or at least what went on the day before). I absorb all I can, tear out any articles that are particularly interesting, and then mull them over at the office. For instance, last week I was thinking about the Fed. You know, the poor Fed is probably pulling its collective hair out trying to decide whether this economy is going to stay flat or whether it's going to pick up or cave in towards the end of the year. And I don't think they have a clue yet.

Obviously, the Fed is worried. They've been booming the money supply (M-1) at about a 14% rate of increase for the last few months. The economic statistics are still pretty dull, but Mr. Volcker must be wondering whether all this money creation isn't going to "catch on" somewhere ahead and start the economy and inflation roaring again. On the other hand, the Fed must also wonder why, with all the deficits and monetary stimulation, business isn't a lot stronger. "Is the Fed turning into a eunuch?", Volcker has got to be wondering as he chews his ever-present cigar.

NOTES & QUOTES: Pensions: I closed down my corporate pension plan here in 1985. Yes, I "took the money and ran". Why did I do this when I could continue to draw tax-deferred interest until age 70½? The reason is that I believe (and I've stated this many times) that we are now seeing the lowest taxes in our lifetimes.

Here's the way I see it. Federal taxers will gravitate to where the money is. The money is now in the pension plans of US workers. So that, in my considered opinion, is where the taxers are going to look -- increasingly. The new Reagan tax bill seeks to increase the current 10% penalty to 20% for anyone pulling money out of an IRA or a pension plan before age 59½. That means that you'd be locked into those plans, really locked in! And in that case, I would find an IRA or pension plan much less attractive.

Then there is Social Security. Already the boys are chopping into SS. If your income exceeds $25,000, 50% of your social security is taxed. Eventually, they'll probably raise this to 100% of your SS payments. Thus, SS is really just a transfer tax. All your SS payments just went to pay for someone else's retirement!

This news clip gives you a glimpse of the way things are going. As I said, I think we're seeing the best of times right now for taxpayers.

Baker Likes O'Neill's Idea of Heavier Tax on Benefits

By DON IRWIN, *Times Staff Writer*

WASHINGTON—Treasury Secretary James A. Baker III indicated his tentative approval Sunday of a suggestion by House Speaker Thomas P. (Tip) O'Neill Jr. (D-Mass.) that Social Security benefits paid to affluent retirees be taxed more heavily to increase government revenues.

Baker, calling the idea advanced by O'Neill 10 days ago "an intriguing proposal," said in an NBC television interview that, if it is "still on the table," it is "something the Administration ought to take a careful look at."

Earlier, the Speaker had suggested that income taxes could apply to 85% of Social Security benefits received by individuals whose income exceeds $25,000 a year. For the last two years, the tax has been applied to 50% of such benefits.

Although Budget Director David A. Stockman had worked with Senate Republicans on a possible budget compromise incorporating

As deficit grows, whispers of a tax increase get louder

By Charlotte Saikowski
Staff writer of The Christian Science Monitor

Washington

It's no longer unmentionable.

As the huge federal deficit persists, more and more talk is heard about the need for a tax increase.

Some in the Senate back the idea. The House leadership has also made noises. And Budget Director David Stockman is

are expected to linger through the next decade.

Economists worry that in the short term the Federal Reserve Board will be under growing pressure to print money to pay the debt, which would spur inflation. Over the longer term, they say, unless the trend is reversed the US will gradually lose control of its own economy to foreigners, whose investments are in...

* *

There are over 400 computer companies listed on the various US stock exchanges. I've got a feeling that 400 is far too many!

* *

Random (very random) statistics: Saudi Arabia is now producing LESS oil than Britain. The Saudis are also running the world's biggest current account deficit after the US.

Staggering from escalating salaries, the National Football League is now lowering the boom. Of the 28 first-round draft picks in 1985, only four have been signed.

In 1927 Babe Ruth hit an amazing 60 home runs for the Yankees. This was more home runs than the total home-run production of any other team that year. Second place in 1927 was Phila. A's with 56 home runs; next, St. Louis Browns with 55.

* *

Diamond notes: Antwerp is one of the world diamond centers. These are some edifying notes from the British magazine, Euromoney (June '85):

Unlike securities exchanges, there are no publicly-quoted prices. "Diamonds are the only commodity in the world without a real value," commented one Antwerp-based broker. And there are none of the hectic and panicky scenes which characterize the London and New York commodity markets. Add the presence of Hasidic Jews – dealers in the market for centuries – sombrely attired in black coats and hats, and the exchange floors have a funereal atmosphere.

Today that atmosphere is not out of place. A deep recession is destroying the Antwerp market, the world's polished-diamond centre. "It's the worst depression since the 1930s," said Jacques Zucker, a partner in Lachowsky Zucker. That crisis was diffused and calmed by the stabilizing influence of De Beers, controllers of 75% of the world's rough diamonds. A measure of the present troubles is their persistence, four years after the market collapsed, despite the best efforts of De Beers to ginger activity and stimulate demand.

All the players in the market have suffered: brokers, polishers, manufacturers and bankers. The three banks which have traditionally provided diamantairs with finance almost collapsed. "If they had been independent entities they would have been bankrupt," said one dealer.

However, diamonds' popularity depended on their usefulness as an investment vehicle. Once this disappeared, diamonds lost their appeal. When the US Federal Reserve changed tack late in 1979 to a policy of disinflation and high interest rates, "for the diamond market it meant ruin", moaned one dealer.

As diamond prices began to fall, investors tried to sell. Two major drawbacks soon became obvious: a lack of liquidity and the wholesale-retail mark-up. Said Flies: "Diamonds are consumables – they are meant to be sold. The diamond trade was not geared to buy back large amounts." There was virtually no secondary market, and even those investors who did have guarantees found that the price they were offered was substantially below what they had paid.

The investment companies folded and the consultants disappeared, leaving investors with their devalued diamonds. The traditional market suffered as its margins were eroded. De Beers, in an effort to maintain stability and keep investor confidence, kept its rough prices at 1980 levels even after the price of polished diamonds had plummeted. "The collapse of the investment diamond market tarnished the whole industry," said one dealer. "It made diamond into a dirty word."

Japan: Ezra Vogel is a Harvard professor who has been warning about the Japanese industrial colossus for over a decade. In 1978 he wrote a book entitled, "Japan as Number One". Now has he has written a new book, "Comeback". Vogel doubts that the American steel and auto industries can ever be really competitive again. He thinks they may go the way of ships, watches, shoes, textiles, motorbikes, machine tools and consumer electronics. Vogel warns that the US faces vicious competition from Japan in computers, communications, satellites, new materials, biotechnology.

Perhaps Vogel's whole argument can be reduced to a single chart. This chart shows the US trade balance with Japan over the last five years. It's a disaster. And my own feeling is that tariffs and protective devices are not going to do the trick. What will do the trick? Yankee ingenuity, a business-oriented government policy and the return of the work ethic.

* *

Paper "Tiger": That's what I call our President. Senator Dole had lined up 22 Republican Senators (all up for re-election) against the expensive cost-of-living boost for Social Security. All these Senators had taken this unpopular stand, a stand which would cost them votes. Then Reagan suddenly did a complete switch and decided that he would go along with the Democrats' demand for COLA. Republicans were speechless. Said Republican Grassley of Iowa, "It would be better if the President sticks behind us rather than Tip O'Neill. I feel if the President can't support us he ought to keep his mouth shut."

WASHINGTON—Outraged Republican senators, saying they went out on a political limb in the name of deficit reduction, Thursday blasted President Reagan's decision to abandon their proposed freeze on Social Security benefits in favor of striking a budget deal with the House.

JOHN F. LAWRENCE

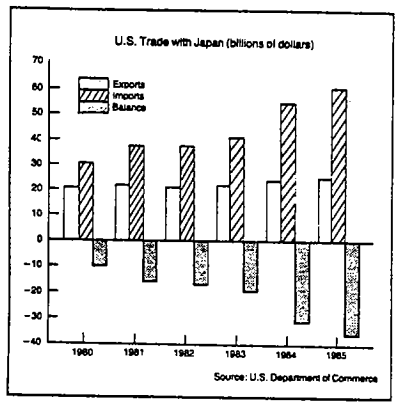
U.S. Business Can't Ignore Asia's Potential

One overwhelming impression from a visit to Japan, South Korea, Taiwan and China is that the economic explosion that has already occurred in the region may be modest compared to the one that's to come.

The explosion of the past involved a massive, low-paid work force competing for world markets. The one to come, already far along in Japan but just beginning elsewhere, will combine the diligence and education of this work force with the power of modern...

Honda of America—which opened its Marysville, Ohio, plant six years ago, making only motorcycles—has eclipsed American Motors Corp. as the fourth-largest automaker in the U.S. A subsidiary of Japan's Honda Motor Co. Ltd., it currently produces 150,000 cars a year in this country.

...ctivity and pro-...ction.



One-Third of Car Market To Japan?

Japanese automakers will take one-third of the U.S. car market by 1987, compared with only 19.6% last year, according to a Commerce Department study. The American share will drop to 61.7% from 1984's 75.3%, while the Europeans will have only 4.4% of the U.S. market compared with last year's 5.1%. As a result, Commerce predicts that American auto company profits will drop about 10% and the number of auto workers will decline by between 110,000 and 180,000 from today's total of 880,000. ■

GOLD, DOLLARS, CURRENCIES: Many months ago when I talked about a major top for the dollar I also stated that I thought the great play against the dollar would be the foreign currencies and NOT the precious metals. I made that prediction for two reasons: (1) People want income, and there is income in holding currencies and no income in holding gold; (2) Fortunes are seldom made on the same item twice within a decade. Fortunes were made in gold during the 1970s into 1980. Many of the same gold-philes have been stubbornly holding gold all through the 1980s. It wasn't logical to me that these people would clean up on gold again, only five years after the great gold explosion of 1978-1980.

But frankly, I didn't think I would be this right. The dollar has topped out -- and decisively. In fact the pound is up an incredible 40% from its February low. In the meantime gold is up a grudging 10% from its February low of 284. Quite a difference! Obviously the money has been made in the foreign currencies rather than the precious metals.

This montage chart (courtesy of Dunn & Hargitt) shows you what has occurred since the March top in the dollar. Those holding gold since March are still trying to get even. Those who bought the currencies (and particularly the British pound in March) have made huge profits.

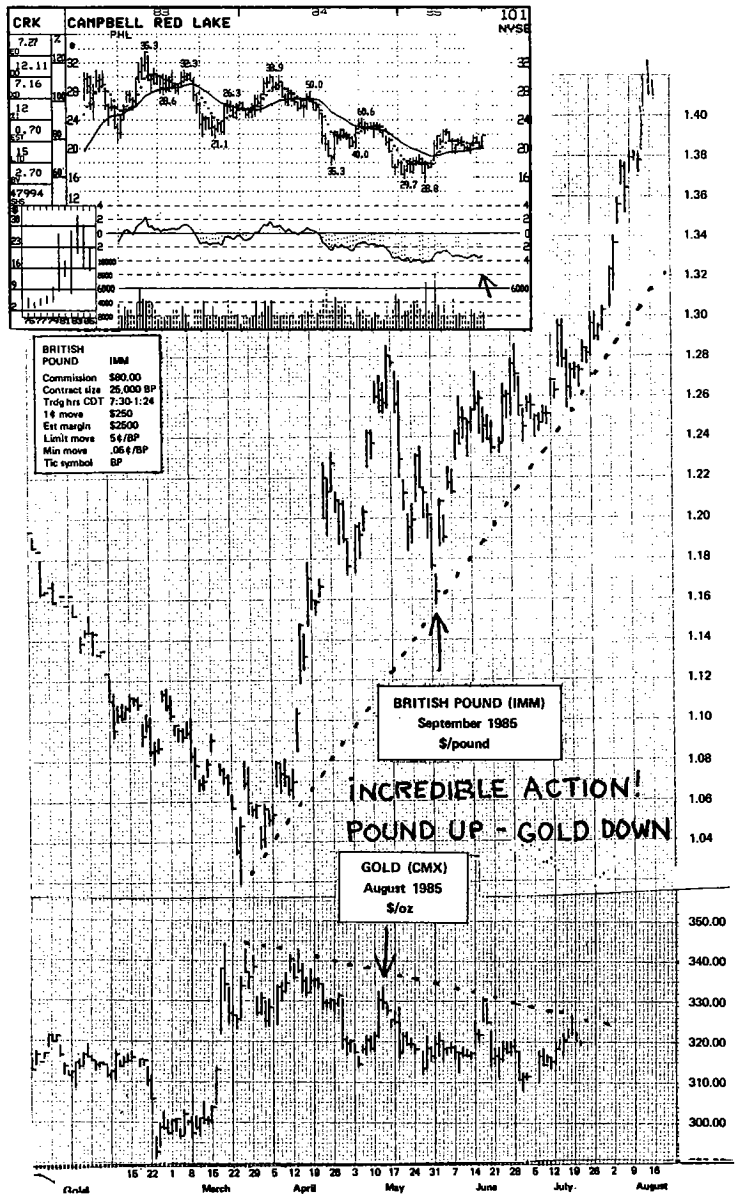
By the way, I just can't resist reprinting this piece from Letter 908 (March 6, 1985). I don't remember anyone else calling the turn on the dollar in early March. In fact, when this piece was written almost all the experts were spouting about a "one-dollar pound". And so it goes.

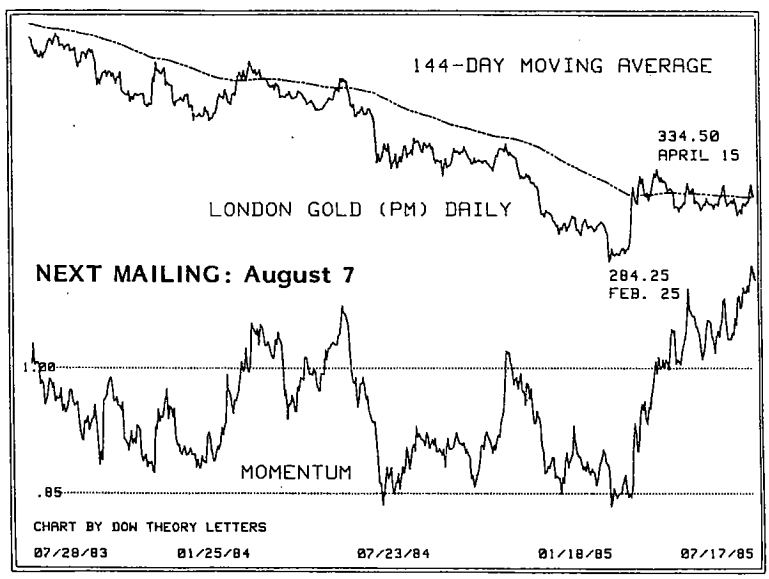
THE TURN? Nothing is more important in markets than major (primary) reversals. And, of course, the place everyone is now watching is the dollar and the foreign currencies. This chart of the British pound is very interesting. After collapsing all through 1983 and '84, the pound on February 25 and 26 plunged below 1.04 to an historic low against the dollar. Note the huge gap formed by that two-day plunge. On February 27 the pound reversed, surging up to 1.09 and thereby forming what is known as an "island reversal." The island is a two-day low, based on the panic action of February 25 and 26.

Many major turns occur on island reversal panic lows, and the 1.03 pound could conceivably represent THE low (and conversely the peak for the dollar). Time will tell, and the pound could now consolidate, but 1.03 will stand as the low for the pound (in my mind) until or unless that 1.03 low is broken.

What about gold now? I continue to point to 334.50 (spot) as the key to the gold picture. Better 334.50 and gold will present a bullish picture. Continue to struggle below 334.50 and gold is neutral. Note on my chart that gold is now above its 144-day moving average, a plus. Gold momentum (89-day rate-of-change) is also bullish. These two pluses should be capable of taking gold over its 334.50 peak. But "should" and "doing" it are two different animals. We'll watch -- and wait.

When gold is on the move, the relative strength of the gold shares turns positive. This chart of Campbell Red Lake (the biggest pure gold play in North America) shows that the RS in Campbell is still on the minus side. When and if gold starts a major bull trend, the RS in Campbell will move up above zero. It hasn't yet (chart courtesy of Mansfield).





LATE NOTES: The PTI has climbed 200 points since April 4 without so much as an intervening 12-point correction. Never seen anything like it, but this bull market could now use a rest (or at least a consolidation). July 19, the CRB Futures Index closed at a new seven-year low. Inflation?